MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BSI3124 – SEMINAR IN INVESTMENT

(All sections / Groups)

26 MAY 2017
9.00 A.M.-11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **5** pages. There are total **4** questions.
2. Answer **ALL** questions.
3. Marks are shown at the end of each question.

Answer all questions in the answer booklet provided.

QUESTION 1 (25 marks)

(a) Give the extracted article from *Management Decision*, read the information carefully and answer the following questions.

> Turker (2009) reported that CSR disclosure can be used as a tool for the assessment of CSR performance. However, the information presented in a corporate disclosure may differ from the actual corporate initiatives (McGuire *et al.*, 1988; Ullmann, 1985; Alon *et al.*, 2010). As Gelb and Strawser (2001) found, companies which integrate CSR initiatives in business operations present higher levels of CSR disclosure performance and the extent of CSR disclosure can be used as a proxy for companies' intention to implement CSR initiatives. Furthermore, the extent of CSR disclosure can be connected with corporate transparency level (Daub, 2007) and management quality and capability for the management to increase business profitably in the future (Eccles *et al.*, 2011). Finally, Qu and Leung (2006) stated that the companies are forced to increase the transparency level in order to gain the confidence of capital markets. The importance of accessibility to capital markets in the USA is increasing as more than one out of every nine dollars under professional management is invested in relation to sustainable and responsible investing. Since year-end 2009, there is an increased 22 percent interest for socially responsible investment assets estimated in $3.74 trillion (US SIF, 2012). In this study, the extent of CSR disclosure is used as a proxy corporate transparency level (Daub, 2007; Delmas and Blass, 2010; Tagesson *et al.*, 2009; Eccles *et al.*, 2011). As CSR reporting is considered a major dimension of CSR (i.e. FTS4Good, 2013; Perrini, 2005; Ellerup *et al.*, 2007), the extent of CSR disclosure could be linked with companies' intentions and adherence to CSR initiatives. Even if CSR disclosure concerns a number of different stakeholders, such as customers, employees and non-governance organizations, this study focusses on shareholders and investors.
>
> For the purpose of this study, large-sized US companies are taken into consideration as these are expected to develop CSR disclosures initiatives. Corporate data are easier to be retrieved by research database than non-listed companies. In addition, this study adopts a third party rating approach in order to estimate the extent of CSR disclosure. Bloomberg calculates the extent of three different categories of CSR disclosure, namely, environmental, social and governance, composing the total environmental, social and governance (ESG) disclosure. This study investigates the determinants on the extent of ESG disclosure and also treats the ESG disclosure, separately.

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> As far as the explanatory variables are concerned, financial, governance and environmental variables are investigated to determine whether they have any relationship with the extent of different types of CSR disclosure. Regarding the environmental determinants, for the first time, greenhouse gas (GHG) emissions and emission reduction initiatives are introduced in relation to CSR disclosure. It can be ascertained whether environmental performance is an important determinant for all types of CSR disclosures or not. Moreover, two financial variables are examined at, namely, company's risk premium and financial leverage. In this way, it can be detected whether the investors could use the extent of CSR disclosures in order to retrieve crucial financial information for their investment decisions or not. Also, two governance variables are adopted, CEO duality and percentage of women in the board, in order to ascertain if board characteristics are vital determinants for the extent of CSR disclosure.

(Source: Giannarakis, Konteos and Sariannidis (2014). Financial, governance and environmental determinants of corporate social responsible disclosure. Management Decision, Vol. 52 Issue: 10,pp. 1928-1951, doi: 10.1108/MD-05-2014-0296)

(i) What motivate the above study to focus on corporate social responsibility disclosure? **(6 marks)**

(ii) Discuss the research question that the researchers intend to carry out in the study. **(6 marks)**

(iii) Explain the importance of socially responsible investing for a business. **(6 marks)**

(b) Compare between behavioral finance and traditional finance. **(7 marks)**

QUESTION 2 (25 marks)

(a) What is market efficiency?. Does weak-form efficiency market hypothesis (EMH) imply strong-form efficiency market hypothesis? What about the inverse? Let say you notice that the CEO of Eco Time Berhad makes an abnormal rate of return on investment in his own company stocks, does this violate the weak-form EMH? Does it invalidate the strong-form efficiency market hypothesis? **(15 marks)**

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(b)

Table1: Cumulative abnormal returns on event day and during event windows

Event Window	Cumulative abnormal returns (average) %	*p*-value
Day 0	2.33	
Panel A: Symmetric Event Windows		
(-15, +15)	3.91	0.050
(-10,+10)	3.20	0.083
(-5, +5)	2.98	0.018
(-2, +2)	2.21	0.105
(-1,+1)	1.49	0.032
Panel B: Asymmetric event windows		
(-15, -2)	-0.09	0.905
(-1, 0)	0.25	0.035
(0,+1)	1.48	0.038
(+2, +15)	2.52	0.067

(Source: Savita and Ramesh (2015) Return volatility around national elections: Evidence from India. Procedia - Social and Behavioral Sciences, 189, 163 – 168.)

Given the results in Table 1 above, explain the findings on market efficiency.

(10 marks)

QUESTION 3 (25 marks)

The Fama and French (1992) article "The Cross-section of Expected Returns" had a profound impact on the subsequent research on asset pricing.

THE JOURNAL OF FINANCE • VOL. XLVII, NO. 2 • JUNE 1992

The Cross-Section of Expected Stock Returns

EUGENE F. FAMA and KENNETH R. FRENCH*

ABSTRACT

Two easily measured variables, size and book-to-market equity, combine to capture the cross-sectional variation in average stock returns associated with market β, size, leverage, book-to-market equity, and earnings-price ratios. Moreover, when the tests allow for variation in β that is unrelated to size, the relation between market β and average return is flat, even when β is the only explanatory variable.

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THE ASSET-PRICING MODEL OF Sharpe (1964), Lintner (1965), and Black (1972) has long shaped the way academics and practitioners think about average returns and risk. The central prediction of the model is that the market portfolio of invested wealth is mean-variance efficient in the sense of Markowitz (1959). The efficiency of the market portfolio implies that (a) expected returns on securities are a positive linear function of their market βs (the slope in the regression of a security's return on the market's return), and (b) market βs suffice to describe the cross-section of expected returns.

There are several empirical contradictions of the Sharpe-Lintner-Black (SLB) model. The most prominent is the size effect of Banz (1981). He finds that market equity, ME (a stock's price times shares outstanding), adds to the explanation of the cross-section of average returns provided by market βs. Average returns on small (low ME) stocks are too high given their β estimates, and average returns on large stocks are too low.

Another contradiction of the SLB model is the positive relation between leverage and average return documented by Bhandari (1988). It is plausible that leverage is associated with risk and expected return, but in the SLB model, leverage risk should be captured by market β. Bhandari finds, however, that leverage helps explain the cross-section of average stock returns in tests that include size (ME) as well as β.

Stattman (1980) and Rosenberg, Reid, and Lanstein (1985) find that average returns on U.S. stocks are positively related to the ratio of a firm's book value of common equity, BE, to its market value, ME. Chan, Hamao, and Lakonishok (1991) find that book-to-market equity, BE/ME, also has a strong role in explaining the cross-section of average returns on Japanese stocks.

(Source: Fama & French (1992). The cross-section of expected stock return. The Journal of Finance, Vol. XLVII, No. 2, 427-465.)

(a) What are the main factors investigated by Fama and French (1992)? Explain each factor. **(15 marks)**

(b) Recently, Fama and French (2015) further developed the model to incorporate two more factors. Explain the additional two factors. **(10 marks)**

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QUESTION 4 (25 marks)

(a) Environmental, social and governance (ESG) is increasingly important in global shift towards sustainable economy. Firms are encouraged to focus on ESG issues to generate sustainable financial returns. Explain ESG. **(12 marks)**

(b) Read the following news and answer the question below.

> The disruptive influence of FinTech
> **March 2016** | COVER STORY | BANKING & FINANCE
> *Financier Worldwide Magazine*
>
> "The financial services industry has endured a tumultuous decade, with the financial crisis and subsequent fallout taking their toll. Financial institutions are facing increased regulatory scrutiny among a number of other challenges. Public trust and confidence in the sector is arguably at an all time low, and banks and their executives have been hit by sanctions and political rebuke. In light of these issues, financial institutions have faced calls to implement much needed cultural and structural changes.
>
> It is little wonder that consumers and businesses alike have seized upon the opportunities offered by FinTech, a catch-all term for the nascent revolution in the financial services space. FinTech – technology and its application in the wider financial services market – offers a genuine alternative to traditional banking and payment systems offered by financial services firms.
>
> For those tired of the oligopoly of the financial services sector, FinTech presents an exciting, democratising development, offering the tools and services needed to meet the demands of today's modern market. FinTech and the new technologies offered by services such as Bitcoin are paradigm shifting developments which have, and will continue to, disrupt existing financial systems. Though in many respects FinTech is still in its infancy, it appears poised to enter the mainstream."

From your opinion, explain what fintech is and how fintech affects investment decision.

(13 marks)

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